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THE PLACE OF FARMERS COOPERATIVES IN THE NATION'S ECONOMY ^{1/}

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Farmer Cooperatives have become an important part of the nation's economy. Drawing on the experience gained in nearly 100 years of trial and error in the use of these associations, farmers now operate just over 10,000 marketing and purchasing organizations in the United States. Between 3 and 4 million farmers hold some 7½ million memberships in these establishments. In 1953-54 they did a net business of about \$10 billion. In addition, farmers have organized some 13,000 service cooperatives. These include mutual fire insurance and irrigation companies, frozen food locker plants, R.E.A. electric and telephone cooperatives, and rural health associations. Three farmers out of five hold memberships in mutual fire insurance companies and about the same proportion avail themselves of the services of rural electric cooperatives. Smaller numbers are members of frozen food locker plants, mutual irrigation companies, telephone associations, and rural health cooperatives.

At one or more stages of the distribution process it is estimated that farmers now handle slightly over 20 percent of their commercial production through marketing cooperatives. For various commodities the proportions are approximately as follows: citrus, 60 percent; milk and butter, 45 percent; grain, 35 percent; apples, 20 percent; live-stock, 12 percent; and cotton, 10 percent. By way of comparison they obtain about 15 percent of their production supplies through cooperatives. Among the more important items the proportion is about as follows: feed and petroleum products, 20 percent; fertilizer, 18 percent, seed, 12 percent; farm machinery, 2 percent; and other farm supplies and equipment, 5 percent.

These data are sufficient to show that farmers are coming to rely more and more on their own business agencies to perform many off-the-farm marketing and production supply and service procurement jobs that have become a part of modern agricultural operations. There is need, therefore, for better understanding as to the place that these cooperatives have achieved in the nation's economy. Such information helps cooperative and farm leaders to inform members, employees, and the general

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public as to the important features of this form of business activity. Similarly, to the extent that non-farm business leaders have a better appreciation as to the real nature of farmer cooperatives, much of the misunderstanding that exists as to their operations disappears.

Objectives and Principles of Farmer Cooperatives

Farmers are motivated by their own economic interests when they set up cooperatives. In fact, cooperation as applied to agriculture, has been described as a method of doing business in which farmers join together for mutual benefit. It is because farmers believe that co-operatives will help them increase farm income and provide needed farm services that they are willing to dig down into their pockets to furnish risk capital to get them started. It is for the same reason that they are willing to take time to inform themselves just how co-operatives operate and to put forth the efforts necessary to make certain that they maintain control of their organizations.

The casual student sees little difference in the operations of a cooperative and its competitor across the street. Both are capitalistic agencies. Both use the various factors of production -- land, labor, capital, and entrepreneurship. Both take risks and both are dependent for success upon stable economic conditions or a capacity to adjust effectively to changing conditions. Both also depend on such elements of sound business operation as good management, adequate accounting, and low cost operations. However, a closer examination shows important differences. The cooperative is owned and controlled by the same patron-members who use its services. Because of this difference the patron member gets his supplies and markets his crops through his cooperatives on a cost basis. Moreover, he often finds it to his advantage to market better quality products and to use his cooperative to make certain that he receives highest quality production supplies in terms of price and service.

There is another important economic difference between the farmer co-operative and the firm across the street. The farmer who buys from a firm other than a cooperative has to rely on his individual bargaining power. The farmer who patronizes a cooperative, however, has the power of all its patrons at the "bargaining table." This difference is important to farmers in today's era of big business. Cooperatives operate according to three generally accepted principles to insure benefits to patron members. These are: (1) operating on a cost basis, (2) limiting returns on member equity capital, and (3) democratic control by members.

To assure operations at cost, most farm supply cooperatives refund savings according to patronage. Marketing associations use the pooling technique to achieve the same results. In these ways all savings above operating costs are returned to members in proportion to the business they do with the association. I believe it conservative to estimate that through these techniques farmers realize annual additions to their net income in excess of \$200 million annually.

To make certain that gains are related to patronage, limiting returns on member equity capital is a practice that has been developed as a second distinguishing feature of cooperative business activity. Farmers in this way emphasize that their cooperatives are not set up to make money as individual business entities or to maximize returns on invested capital. Rather they are in effect the marketing, farm supply, and service departments of farmers. Such operating savings as are realized go to them in proportion to the use they make of their own business establishments and not necessarily in proportion to the capital invested. Farmer members of cooperatives, therefore, benefit in proportion to the use they make of their own business agencies.

A third distinguishing feature of cooperative organization is its provision for member-patron control. In most States this has given rise to the well established one member, one vote principle. In some cases, however, democratic control is maintained on the basis of proportionality and members participate in control to the extent to which they use their associations. For instance, voting may be on the basis of one vote for each 10 cows, each 1,000 bushels of grain, or any agreed upon volume of marketing or farm supply business.

A look at cooperatives then brings us to two important conclusions. The first is that farmers who set up these establishments, the same as other businessmen, are capitalists and are motivated by a desire to increase their income from farming. The second is that farmers have built distinctive features into the operation of their cooperatives so as to assure themselves that they are the ones who will benefit. Cooperative organization is the farmers' answer to the economic environment in which they find themselves.

The Economy Examined

While considerable disagreement may exist among individuals as to the real nature of our economy, there is no disagreement about the fact that we live in, and business operates in, a capitalistic society. It will be well, therefore, to consider how this economy operates and the place that the farmer-owned business organizations can logically expect to occupy in it.

The capitalistic economy traditionally is thought of as one in which profits are the motivating force and in which the institution of private property is the cornerstone. Such a society presupposes a large degree of rational self-interest and freedom of choice in undertaking various business enterprises. It is a society in which market value is believed to be closely correlated with social value and in which competition has been looked upon as "the great regulator" of economic activity.

People in all walks of life speak glibly about capitalism and free enterprise but there is no universally accepted idea as to all that is implied in these terms. While no reputable American will deny the importance of capitalism and the free enterprise system to the progress and economic growth of this country, there is still much confusion as to just how such a system is supposed to operate.

The classical economist developed the first logical explanation of the functioning of this system of economics. Buyers and sellers were assumed to be small and no one of them possessed sufficient power to make their influence felt in the market place. Under such circumstances a system of substantially perfect competition would prevail. It would be so effective that those who tried to price their goods and services contrary to its basic principles would soon be automatically whipped into line. Private interest and public interest were assumed to be analogous. Happily, to the extent that an individual added to his wealth he would be adding to the social services available to mankind.

It is not surprising that this doctrine held full sway at the time of the American Revolution and for a number of decades that followed for at that time it had resemblance to the facts of the case. These views, however, often have continued to be a fiction of political economists and a creation of the professors of economics for more years than many would care to admit. Perhaps this was because it gave an explanation of our economy that was both comforting and popular. Armed with a set of assumptions that assured a logical answer, it mattered little that these assumptions did not meet the tests of actual reality.

Moreover, since the practitioners of the art showed little inclination to actually go out into the world of reality and see if the assumptions upon which the system was based actually existed, the fiction continued longer than one would reasonably expect.

Even after agriculture, the last citadel of the system, had long since failed to serve as the shining beacon of perfect competition, textbooks, teachers of economics, and farm and other business leaders continued to extol the virtues of the system. The concept of the free market, however, is becoming increasingly hard to recognize in an economy of parity, acreage restrictions, price supports, marketing agreements, and oligopolistic market firms.

The efforts of farmers to form their own cooperatives is one indication that the system never really worked as its spokesmen believed it might. If the economy of the classical theorists really existed, there would be no logical basis for considering the subject of this paper. Such a system of economics would offer no rational basis for cooperative endeavor. Under a system of perfect competition the farmer would get all his products were worth and he would be able to obtain production supplies and services at the lowest possible cost. Nothing would be gained by setting up cooperative business firms.

The march of events continued to expose the fiction of the theory of perfect competition. It is not necessary to repeat in detail the events that have led up to the concentration of economic power that has taken place in the nation's economy. The July 1955 issue of Fortune Magazine, however, shows that 500 business firms in the United States in 1954 accounted for 51 percent of all sales, 56 percent of total assets, and 66 percent of net profits; yet they represented only 0.2 of one percent of the industrial concerns in the country.

Quite in contrast the combined annual business of all 10,000 farmers marketing and production supply cooperatives was substantially the same as that of the largest firm in the United States. That is more, the total business of the 500 firms reported in this article was approximately $4\frac{1}{2}$ times the annual value of all farm marketings and 13 times the net volume of business farmers transacted through all their cooperatives. Among the 500 firms are found a limited number of manufacturers, processors, and distributors whose business primarily consists of either manufactured or processed farm products or production supplies.

Neither is it necessary here to trace in detail the wide fissures in the neatly packaged explanation of the classical economists that was introduced by the collapse of its cornerstone -- perfect competition. While these economists recognized the possibility of an occasional monopolistic situation and provided a means for dealing with it through Government intervention, they had no explanation that would enable them to cope with an entire industry in which competition was highly imperfect.

Confronted with dominant concerns, any one of which by their own actions admittedly might influence price, in such industries as tobacco manufacturing, meat processing, dairy processing, flour and feed milling, and automobile manufacturing -- to mention a few -- the system was shaken to its foundations.

We should also trace a few companion trends in agriculture to further note the developments that characterize the more complex trends there. In this mechanical power age, farmers by the millions have abandoned the age-old practice of raising colts and growing oats and hay for power. Neither do they get their horses by dealing with nearby farmers or with the traditional horse traders who make periodic pilgrimages to Iowa or some other Western State to replenish their stock. They rely more and more on "iron horses" in form of tractors and trucks which are bought from one of a limited number of large manufacturers, and farm power now takes the form of gasoline or fuel oil. It largely comes from one of the dominant firms in the petroleum industry.

The consequences of this situation have been set forth by one economist as follows:

"... The farmer is still individualistic in his philosophy, but his economic life is subject to the impact of corporate power at a hundred points, and he preserved his individualism only to a limited extent, and at heavy financial cost."

Integration through Co-ops -- The Farmers' Answer

Confronted with concentration and control in industry -- a situation highlighted by the strategic position of 500 firms in the nation's economy -- farmers have turned to cooperatives as one means of maintaining a position of balance in the market place. They have found that the local marketing cooperatives, which primarily were content to assemble agricultural products, and the local supply associations, which engaged in retail distribution, weren't always the answer to their problems. To deal with the concentration of market power that has taken place in various segments of industry, farmers are integrating their operations so as to have something to say about the functioning of various commodity and production supply markets that have a bearing on their operations.

For instance, livestock and grain as well as fruit and dairy cooperatives have become well established on terminal markets. Many of these together with other associations carry on a number of marketing functions far down the line toward the ultimate consumer. Similarly, when farm supply cooperatives integrate operations by undertaking processing and manufacturing activities they often find it to their advantage to set up joint facilities in order to take advantage of economies of scale. For this reason farmers have established federations of regional associations to obtain necessary production supplies for modern farming. In this way they manufacture feed, mix fertilizer, and refine fuels.

I have indicated that it is now as necessary for the farmer to have refineries and bulk facilities to obtain petroleum cooperatively to power his tractors and trucks as it once was to have a local cooperative to get hay and grain for his horses. Even at that, these integrated business establishments are relatively small. Although cooperatives now own 17 refineries, their total investment in refinery facilities represents only about 1 percent of the total for the industry and their output is still under 2 percent of all refined fuels.

Contributions of Cooperatives to the Capitalistic Economy

A look at the operations of farmer cooperatives indicates that these associations have made important contributions consistent with some of the generally recognized tenets of the capitalistic system. Among the more important are. (1) making the concept of rational self-interest work; (2) assuring greater equality in the distribution of wealth and income; (3) establishing and increasing competition; (4) lessening the need for Government assistance; and (5) developing rural business leadership. Each of these contributions is now briefly considered.

Making the Concept of Rational Self-Interest Work -- One of the basic assumptions of proponents of the capitalistic system is that rational self-interest, to a large extent, determines choice in the market place. It generally is recognized that self-interest has proven a reliable



human motive. However, indications are that it functions more effectively on the selling than on the buying side. Most universities, for instance, offer courses in advertising and salesmanship but those directing attention to "buymanship" can be numbered on the fingers of one hand.

While we may conclude that a "tolerable" job is done on the part of consumers in their market place selections, admittedly many are uninformed and as individuals cannot be expected to possess all the facts they need to make intelligent choices. Others are indolent and ready victims of high-pressure advertising tactics. It is little wonder, therefore, that consumers often wander around in a state of shock while television and radio confuse their already numb minds with fantastic claims as to merits of beer, toothpaste, soap, breakfast foods, deodorants, and any of the other thousand and one gadgets that make no material contribution to our welfare.

Cooperatives are helping make the concept of self-interest work to the benefit of the entire economy. This they are doing both by obtaining information as to the attitudes and needs of patrons and by product testing and informed buymanship. Farm supply purchasing cooperatives can move in this direction without getting into conflict with other major groups in the economy.

For example, members of these associations have insisted from time to time that their cooperatives break with the customs of the trade. Their rational self-interest has called for and brought about such changes as: (1) manufacturing and distributing open-formula feed of such composition and quality as to most effectively supplement farm production; (2) handling high quality and well adapted seeds suited to the specific needs of farmers; and (3) developing high-analysis, prescription-type fertilizers that not only reduce costs of transportation but also make available to farmers fertilizer in the amount and quantity necessary for most efficient production. The cooperative then has become an effective vehicle for enabling farmers to express their rational self-interest.

Assuring Greater Equality in the Distribution of Wealth and Income --

Greater equality in the distribution of wealth and income is an important requirement for maintaining a sound capitalistic system. This is because (1) competition to be effective requires that competitors maintain a degree of balance as to financial resources, and (2) the rank and file of consumers must have income to buy the products of industry if there is to be wide employment of labor and other productive resources.

It is obvious that widespread inequality of income keeps the capitalistic economy from operating effectively. It also serves to add fuel to the fire of social discontent. Such discontent contributes to an environment in which the various "isms" are more likely to gain a foothold.

Cooperatives through their emphasis on strengthening the bargaining power of farmers and operating at cost and the use of the patronage refund techniques are bringing about wider distribution of wealth

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and income. As farmers establish more efficient cooperative organizations, these small-business enterprises stand to benefit through greater equality in the distribution of wealth and income.

Moreover, local business communities, mail order houses, and all other types of businesses supplying farmers also benefit as a result of greater farm income. In this respect cooperatives make it possible for farmers to compete more effectively and at the same time are helping make the capitalistic system work to the advantage of larger segments of the economy.

Establishing and Increasing Competition -- The problem of maintaining effective competition is highlighted by the following statement:

"... the four horsemen - fixed prices, low turnover, restricted production, and monopoly control - rode through our economy from factory to farm." A comparison of the relative position of farmers with that of the rest of the business economy only serves to emphasize the lack of balance that exists. Acting alone, the competitive position of some 3,500,000 commercial farmers is in sharp contrast with the oligopolistic position of many of the firms with which they deal.

It is only by joint effort that farmers can hope to establish a "countervailing" force to deal with the situation as they find it. Cooperatives are recognized as one means at their disposal to generate such a force. By their use farmers hope to make the capitalistic system work as effectively for them as for other segments of the economy. It has been emphasized that farmers, in effect, have been dealing with giants in industry. Obviously as individuals farmers have no means for bargaining effectively and making their influence felt in the market place. It has been only by pooling resources and integrating various market services either from farm toward eventual consumer, or from processing plant to individual farmers, that they have put themselves in a position where they can hope to deal with other segments of trade on an effective basis.

Without laboring the point, it is obvious that if these contributions of cooperatives are accepted, corollary benefits also will be recognized.

For instance, cooperatives contribute to a situation in which market values correspond to social values. Because the cooperative is their own creation, there is no reason why farmers should load it down with the responsibility of continuing wasteful and duplicating practices which too often add to market costs. Rather it is obvious that they are interested in having it operate in such a way as to shorten and increase the efficiency of the marketing process.

Lessening the Need for Government Assistance -- Political scientists are far from agreement as to the extent to which Government should participate in affairs of the economy. They generally recognize,

however, that Government has responsibilities as to aid to education; establishment of standards for quality of products, safety, health, and sanitation -- all developments that raise the level of competition; control of public utilities; social security; and Government ownership of certain national resources.

Cooperative spokesmen emphasize that farmers' businesses are in a position to lend a helping hand when it comes to freeing the farmers from dependence on Government. Inherently, cooperatives are self-help organizations and to the degree that such help is effective and serves the interests of farmers, demand for Government assistance is lessened.

Cooperative leaders, however, are not always realistic when they speak of these organizations as the sole answer to concentration of economic power which confronts the farmer. For instance, many farmers are not members of cooperatives and even a larger proportion of farm products sold or farm production supplies purchased do not move through cooperative channels.

Moreover, cooperatives have certain operating limitations. These include: (1) Members often act slowly; (2) a certain degree of provincialism exists among cooperative leaders; (3) benefits are diffused among members and non-members alike; (4) it is difficult to establish member responsibility; and (5) cooperatives have only limited control over production and production practices.

This in part explains why agencies of Government will continue to be called upon from time to time on behalf of farmers. This becomes especially necessary when the impacts of economic changes are swift and severe and the necessity for obtaining greater balance in the economy reaches proportions of such scope as to be beyond the sphere of the cooperative endeavor.

Developing Rural Business Leadership -- By taking the steps necessary to bring about an understanding of their business operations, cooperatives have contributed to the economic education of their members as well as the general public. Irrespective of whether the cooperative venture has been a success or not, farmers who have participated in the operations of these associations have learned much about the workings of economic forces. Through membership publications, patron tours, and product demonstrations farmers gain a better understanding of the operations of the economic system.

It is estimated by the Farmer Cooperative Service that at least 100,000 active farmers either are serving or one time or another have served as directors of farmer cooperatives. These individuals, to the extent that they have given necessary attention to their responsibilities as policy makers, have had "post-graduate" courses in the operations of our business economy. In addition they have gained valuable first-hand experience in group action that makes them better citizens.

The business experience gained by members of cooperatives lead to a better understanding of cooperatives as essentially business establishments. It also has pointed out the close relationship that exists between production and marketing. First-hand information as to market demands has done much to improve production practices.

Finally, cooperatives have made contributions to the development of business leadership by transmitting economic information to farmers. This they do by drawing on State Colleges, the Extension Service, the U. S. Department of Agriculture, and their own research and education departments. They are in a position to acquaint members with the economic forces having a bearing on the successful conduct of their own business.

Conclusion

In conclusion, cooperatives have become increasingly important because they help to maintain or improve the farmer's economic position in the world of big business -- a world in which the forces of perfect competition have never actually functioned. Cooperatives, therefore, are one of the most effective means at the disposal of farmers for dealing with the concentration of market power with which he is confronted and the resulting changes that have taken place in the economy.

The implications of the changes that are taking place in the structure of the economy on the functioning of the capitalistic system and the place that cooperatives occupy in it are not always well appreciated. These changes, however, are important because the ideas on economics that long have dominated the thinking of interested persons no longer offer an adequate explanation of the economy that exists. The facts are that sometimes the things we think we know are not always so, for as has been said "knowledge keeps no better than fish." To the extent that cooperatives help to improve their economic position, they serve to make better capitalists of farmers and in this way build a firmer basis of support for the maintenance of the kind of capitalistic economy that exists today.





